



STATE OF WASHINGTON

OFFICE OF FINANCIAL MANAGEMENT

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February 12, 2014

TO: David Schumacher, Director
Office of Financial Management

THROUGH: Tracy Guerin, Deputy Director
Office of Financial Management

FROM: Roselyn Marcus, Assistant Director for Legal and Legislative Affairs *RM*
Jay Balasbas, Senior Budget Assistant for General Government *JB*

SUBJECT: REVIEW OF PROGRAMS AND SERVICES AT DEPARTMENT OF ENTERPRISE SERVICES – RECOMMENDATION

RCW 43.19.008(5) directs the Office of Financial Management (OFM) to conduct a review of the programs and services performed by the Department of Enterprise Services (DES) to determine whether a program or service may be performed by the private sector in a more cost-efficient and effective manner than being performed by the department. Up to six activities and services may be selected by OFM each biennium under this review. In conducting its review, OFM is authorized to break programs down into discrete services or activities, or the program may be reviewed as a whole. However, priority for selection shall be given to agency activities or services that are significant, ongoing functions. For each selected activity, DES must conduct a procurement process to determine if a contract for the activity could be performed at a reduced cost and greater efficiency. If OFM determines through the procurement process that the activity or service could be provided by the private sector at a reduced cost and with greater efficiency, DES may proceed with the contract.

The purpose of this memorandum is to provide information on the review conducted of DES activities. This memorandum will also provide the results of the review and recommendation as to which activities could be selected for this biennium.

Statutory Requirements

RCW 43.19.008(5) sets out the parameters for the review of DES activities. The review is the vehicle used to determine whether the program or service can be performed by the private sector in a more cost-efficient and effective manner than performed by DES. The statute specifically requires OFM to:

1. Examine each activity in regard to performance, staffing, capital requirements and mission. The activities can be examined either by discrete services or activities, or the program can be reviewed as a whole.
2. Examine which activities are available in the private sector and what potential efficiency gains or savings exist.

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Once conducted, OFM shall select up to six activities or services that have been determined as one that can be provided by the private sector in potentially a more cost-effective and efficient manner. In making the selection, OFM is to give priority to activities or services that are significant, ongoing functions.

Review

In order to start the review, we began with the analysis prepared for the 2011-13 biennium. That review contained two sets of information; information about each agency activity and information about the private market related to each activity. We first updated the information about each activity using the DES Activity Inventory and other information from or about DES. Activities were updated to reflect the current organizational structure, functions, and performance. During this process, some activities were eliminated, while others were combined or broken out from larger program descriptions. Using this new alignment, updated market information was gleaned from various sources. Exhibit 1, the updated review of DES programs and activities, is attached.

Recommendation

RCW 43.19.008(5) requires OFM to select up to six activities each biennium. Based on the updated review, it is recommended that OFM select one or more of the following activities or services for DES to conduct a competitive procurement process to obtain bids from the private sector:

- Real Estate Leasing Services for new leases and renewals;
- Motor Vehicle Claims Processing through Resolution;
- Support for the Web Portal (Access Washington and other e-Government applications); and
- Printing and Imaging Services.

Real Estate Leasing Services – Basis for Recommendation

DES Real Estate Services (RES) provides real estate leasing services, to include assisting agencies in determining the type and amount of space needed; finding acceptable space; and negotiating new leases, amendments to current leases, and lease renewals. RES has approximately 1,300 leases located throughout the state covering approximately 10 million square feet of space. These leases are primarily for office space, but may also cover other kinds of spaces such as warehouse, storage, classroom and retail. RES architects support the leasing agents and client agencies by developing floor plans and details which describe the built-out leased space. RES architects may work with the building owner's architect, produce drawings, monitor construction progress, and look for compliance with state codes and statutes.

DES has a clear but complicated set of fees for the various real estate services. DES charges fees based on the following categories of services: leasing and design services for new leases, lease renewal services, cancellation fees, delegation fees, and other reimbursable services. A complete list of fees is attached as Exhibit 2.

There is a large, mature statewide private market for this activity. There are over 3,600 firms that provide office building rental or leasing services and over 1,500 firms that provide real estate property management. In addition, several states and other municipalities have contracted with the private sector for various levels of real estate services from strategic real estate services and consultation to transactional activities such as lease negotiations.

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Motor Vehicle Claims Processing through Resolution – Basis for Recommendation

Individuals who have been harmed or who have suffered a loss as a result of negligent actions by a state employee or agency can submit a tort claim to the DES Office of Risk Management (ORM). ORM reviews, investigates and determines the state's liability for the claimed injuries. It then compensates claimants for damages or negotiates a fair settlement when liability is supported by evidence. ORM denies claims when it is determined that liability is unsupported by the evidence. Approved claims are paid out of the Self-Insurance Liability Program, which is funded by state agencies based on their claims history.

Claims resulting from automobile incidents can arise in two ways: accidents where the state employee is at fault and accidents resulting in damages to state vehicles when the other party is at fault. For automobile claims, the Washington State Department of Transportation handles claims arising from its agency. ORM handles claims for all other agencies. Around 1,200 claims were filed in fiscal year 2012 and fiscal year 2013. As of January 2014, there have been around 700 automobile claims filed. These numbers do not include claims from the University of Washington.

Claims may also arise when a state vehicle is damaged by another person. In those cases, the state (ORM) seeks to recover from the person liable the cost of the damage to the state vehicle. The recovery rate for damages was determined to be low. In order to improve the state's recovery rate, ORM contracted with the private sector to recover damages for state vehicles. Since 2012, the contractor, CEI, has been assigned 246 claims, recovering from 157 claims a total of \$237,626, with a net recovery to state agencies of \$208,641.

The market data shows that there is a private statewide market for claims adjusting and resolution services. Statewide, there appears to be approximately 580 firms that perform these services.

Support for the Web Portal – Basis for Recommendation

DES Enterprise Technology Solutions (ETS) provides development and support services to the state government's Access Washington web portal, the *Ask George* search tool, and the state's intranet portal "Inside Washington." The statewide web portals deliver the single face of Washington government.

Last biennium, DES conducted a procurement process for both this activity and the website design and maintenance services. The procurement process resulted in an OFM determination that both activities could be provided at a lower cost and greater efficiency by the private sector. The contracts for the website design and maintenance services have been executed and work under these contracts has begun. The contract for the portal and e-government services has not been executed due to a change in legislation last session related to one of the affected e-government services. The parties are still exploring whether to execute the contract and how it would work going forward.

There is still a private market for this activity. If DES is unable to execute a contract pursuant to the prior competitive procurement process, a second procurement process under the new parameters would be warranted.

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Printing and Imaging Services – Basis for Recommendation

Bulk printing was subject to a competitive procurement during the last biennium. OFM made a determination that bulk printing could be provided at a lower cost and greater efficiency in the private market. The remaining services include quick copy (copy orders of 5,000 copies or less), posters, signs, mounting and laminating, graphic design, and fulfillment. For these jobs, DES calculates the cost of the labor necessary to complete the job, and adds the cost of the materials involved.

Rapid changes are occurring in the printing and imaging industry. The industry has been moving away from standard paper print jobs. According to the Printing and Imaging Association of MidAmerica, the growth sectors within this industry include digital printing, packing, and mail and fulfillment services.

The vast majority of services that constitute printing and imaging services are already contracted out to private vendors. A significant private market exists throughout the state to perform the remaining functions.

Conclusion

Based on the review, we believe one or more of these four services can be selected for a competitive process to test the private market. If you have any questions, please contact me or Jay Balasbas.

Attachments